
**COMMISSION MEETING
THURSDAY, MARCH 9, 2000
DRAFT MINUTES**

Chair Ludwig called the meeting to order at 1:30 p.m., at the Inn at Semi-ah-moo in Blaine, and introduced the following attendees:

MEMBERS PRESENT: **CURTIS LUDWIG, Chairperson;
COMMISSIONER LIZ MCLAUGHLIN; and
COMMISSIONER GEORGE ORR**

OTHERS PRESENT: **BEN BISHOP, Executive Director;
SHERRI WINSLOW, Deputy Director, Operations;
ED FLEISHER, Deputy Director, Policy & Government Affairs;
AMY PATJENS, Manager, Communications & Legal Department;
CALLY CASS-HEALY, Assistant Director, Field Operations;
DERRY FRIES, Assistant Director, Licensing Operations;
ROBERT BERG, Assistant Director, Special Operations;
JERRY ACKERMAN, Assistant Attorney General; and
SHIRLEY CORBETT, Executive Assistant**

1. NEW LICENSES, CHANGES, AND TRIBAL CERTIFICATIONS:

Commissioner McLaughlin made a motion seconded by **Commissioner Orr** to approve the new licenses, changes, and tribal certifications as listed in pages 1-15 of the agenda packet. *Vote taken; the motion carried with three aye votes.*

2. MANUFACTURER / DISTRIBUTOR LICENSE APPROVAL:

Standing Stone Gaming LLC, Verona, New York

Robert Berg, Assistant Director, reported the organization applied for a Class D manufacturer's license in the state of Washington and plans to assemble and market tribal lottery systems to tribal casino facilities in the state of Washington. Corporate officers are Frank Riollo, the LLC Manager, the Oneida Indian Nation, and Standing Stone Holdings LLC. The Oneida Indian Nation is a sovereign Indian Nation recognized by the federal government, and they own 100 percent of the interest in Standing Stone Gaming Holdings, LLC.

Staff conducted a high level financial investigation of Standing Stone. A routine analysis was conducted

on corporate records including the company check register, board meeting minutes, leases, agreements and et cetera. Nothing out of the ordinary was noted during the review. Staff will proceed with licensing first because the machine is still in prototype mode. The machine is currently being reviewed by the lab and will come before the Commission at a later time. Presently, Standing Stone LLC does not manufacture any other types of gaming machines. Nothing in staff's investigation has led them to believe they would be disqualified from licensure. Investigative funds are being held for staff's return visit once the plant commences the process of manufacturing. In staff's debriefing, the agents advised that the representatives of the Oneida Nation were cooperative, courteous, professional, accountable, and very responsive to Commission inquiries. Staff recommends the licensure of Standing Stone Gaming LLC as a Class D manufacturer.

Chair Ludwig called for questions from the Commission. **Mr. Hallbritter**, CEO and Nation Representative, introduced Kent Cuputo, Attorney, Dick Martin, Sales Representative, Frank Riollo, President of Standing Stone Gaming, Eric Faser, Attorney, and Craig Clark, Chief Financial Officer. Mr. Hallbritter complimented the Commission on the quality and professionalism of the visiting Commission staff.

Commissioner McLaughlin asked why Standing Stone Gaming LLC was created. **Mr. Hallbritter** explained the Oneida Indian Nation created Standing Stone Gaming corporation in order to conduct business outside of New York. **Director Bishop** further clarified that it was a way to do business without the tribe itself being the licensed entity. Since they are a 100 percent holder, it would put government in an awkward position of having to license another governmental entity. **Mr. Cuputo** affirmed. Commissioner McLaughlin inquired who would be liable, the Oneida Nation or the corporation. Mr. Hallbritter explained the corporation would be liable.

Commissioner Orr made a motion seconded by **Commissioner McLaughlin** to license Standing Stone Gambling LLC as a manufacturer. *Vote take: motion passed with three aye votes.*

2. **REVIEW OF FRIDAY'S AGENDA:**

Amy Patjens, Manager, Communications & Legal Department, noted tomorrow's meeting will start at 9:30 a.m. instead of 10:00 a.m. Ed Fleisher will provide a legislative update. This will be the last scheduled legislative update unless activities occur during the Special Session that impact the agency. Ms. Patjens addressed the rules package, and noted the Bingo rules are up for final action. Two packages are up for discussion and will be up for final action at the April Commission meeting. The first rule deals with licensees reporting criminal and civil actions, and the second package relates to the card room rules -- ending the test program and beginning regulation through rules instead of contracts. They appeared on the agenda for four months instead of the usual three months because of filing deadlines with the Code Reviser's Office.

3. **GROUP IV - QUALIFICATION REVIEWS:**

Northshore Youth Soccer Association, Snohomish

Robert Berg, Assistant Director, reported that Commission staff conducted the qualification review for the fiscal year ending March 31, 1999. A detailed report is included in the agenda packet. This organization was formed as a charitable organization. The organization provides programs and facilities for recreation soccer activities, specialized training, and soccer clinics. The organization did not meet its combined net return for its Class K Bingo license; however they are participating in the current net return moratorium. There are pending administrative charges against the organization as of this date, and Northshore Youth Soccer Association did not make significant progress towards their stated purpose. Based on the review, staff recommends temporary approval of Northshore Youth Soccer Association as a charitable organization to conduct gambling activities in the state of Washington.

Kevin Sherwood, Bingo Manager, reported that he has been with Northshore Youth Soccer for about 2.5

years. **Chair Ludwig** noted the organization had already been lowered from a Class K Bingo license after getting the benefit of the moratorium. Then they were administratively reduced to a Class J because they were not meeting the net return requirement. **Mr. Sherwood** explained the major problem is the competition with the Bingo industry. **Chair Ludwig** advised the Commissioners are sympathetic and anxious to see ways they can improve. He pointed out that their bill didn't pass the legislature and asked if Mr. Sherwood had any suggestions on how to improve the net return. Mr. Sherwood advised that he was going through a process that will be new and unique to the industry, in addition to incorporating changes to achieve lower expenses.

Commissioner McLaughlin made a motion seconded by **Commissioner Orr** to authorize temporary approval of Northshore Youth Soccer Association, located in Snohomish, as a charitable organization to conduct gambling activities in the state of Washington.

Chair Ludwig questioned how long the temporary approval would be valid. **Mr. Berg** explained the option for a temporary certification allows for whatever may happen in the administrative arena to go forward and allows the Commission to call the organization back at such time when the outstanding issues are resolved. *Vote taken; the motion carried with three aye votes.*

4. **GROUP V - QUALIFICATION REVIEWS:**

Yakima Greenway Foundation, Yakima

Robert Berg noted that staff conducted the qualification review on Yakima Greenway Foundation for fiscal year ending December 31, 1998. The Foundation was formed as a charitable organization and has approximately 1400 active members, governed by a 23 member board. The organization provides maintenance for 10 miles of paved pathway – three parks, two fishing lakes and four river access landings, all of which are open and free to the public year-round. The organization did not meet its combined net return for their Class J Bingo license; however, they are participating in the current net return moratorium. There are pending administrative charges against the organization as of this date. Yakima Greenway Foundation has made significant progress towards their stated purpose, and based on the review, staff is recommending the approval of Yakima Greenway Foundation as a charitable organization to conduct gambling activities in the state of Washington.

Mr. Berg reported this is a different issue than the previous qualification review; hence, staff's recommendation is not for a temporary but for actual approval. It's an administrative charge with a class limit license, which is currently in process with the Commission's legal department. Mr. Berg added that the reason this was held was at the request of the licensee and Commission staff, who are trying to work on the net return issue. **Chair Ludwig** addressed the comparison between 1997 and 1998 and the drop in Bingo net income to \$12,000. Mr. Berg commented on staff's review and noted that if we consider when the report was completed and tie that with the opening of the Legends Casino in Yakima, it may answer some questions regarding the drop. Mr. Berg advised that he was not sure whether the \$300,000 drop is a bow wave, because the 1996 Bingo net income was \$85,000 -- then it went up to \$301,000 and dropped back to \$12,000. **Commissioner McLaughlin** asked if the organization had moved into a new facility. **Sherri Winslow**, Deputy Director, responded that she believed the facility in question is a facility that was given to the organization. She believed that what we're seeing in 1998 was the immediate impact from the new tribal casino. Ms. Winslow affirmed there has been a turnaround in the Yakima area, but it's very similar to when a new activity breaks into a market area. It is unknown if the organization will come all the way back up to where they were, which is why the task force is continuing to meet.

Commissioner McLaughlin noted that although other gambling net income has dropped, it hasn't been as significant as the Bingo drop. Ms. Winslow agreed, not in 1998. However, she reported that staff is finding the tribal lottery devices are having impacts on pull-tabs. Ms. Winslow advised the impacts weren't seen until late 1999. **Director Bishop** noted that pull tab expenses typically mirror those of the Bingo operation. In this case, the disparity appeared to be the difference in prizes. Prizes are approximately 70

percent, while prizes for their Bingo games are above 74 percent. He affirmed it may be difficult for Bingo to get anywhere near compliance with a 74 percent payout. Director Bishop explained that typically decreases in net income happen when there is a change in customer flow. A facility advertises prizes well in advance, and will pay them out regardless of the number of customers. Because they have to advertise them a month in advance, it is very hard to adjust to a dramatic change fast. Over the period of a year or a year and a half, the activities may start coming back because the facility will start adjusting their expenses.

Chair Ludwig asked staff how many charitable Bingo operations exist in Yakima. **Ms. Winslow** said she believed there were four or five. Chair Ludwig said he shares Commissioner McLaughlin's concern and is hopeful they improve their revenues.

Commissioner Orr made a motion seconded by **Commissioner McLaughlin** to approve the Yakima Greenway Foundation, located in Yakima, as a charitable organization, and that they be authorized to conduct gambling activities in the state of Washington. *Vote taken; the motion carried with three aye votes.*

Seattle Junior Hockey Association, Mountlake Terrace:

Mr. Berg reported that staff conducted a qualification review on Seattle Junior Hockey for the fiscal year ending June 30, 1999. A detailed report is included in the agenda packet. The organization was formed as an athletic organization and has been licensed since 1976. There are 41 active members governed by a board of nine individuals. They provide programs and services for the maintenance of five youth athletic clubs, promoting amateur hockey statewide. The organization met its net return for a Class M Bingo license. There are no pending administrative charges as of this date. Staff has determined this organization has made significant progress towards their stated purpose. Based on the review, staff recommends the approval of Seattle Junior Hockey Association as an athletic organization authorized to conduct gambling activities in the state of Washington.

Chair Ludwig called on **Ric Newgard**, Primary Gambling Manager. **Commissioner McLaughlin** observed that the Seattle Junior Hockey Association's net income has gone down as well, and asked why the other gambling net income was significantly higher. **Director Bishop** said that it was due to a huge tax refund. **Mr. Newgard** concurred and pointed out this was a one-time occurrence. Mr. Newgard noted the drop in revenues occurred as soon as the new video lottery/slots/x-machines came on board. He affirmed the industry saw a major attendance decrease. He explained the higher-end player went for the bigger win at the tribal casinos. Mr. Newgard acknowledged the tribes are doing great things for their organizations and tribal members; however, he felt that it was unfortunate the non-profits didn't get more help from the Legislature this year. On behalf of Seattle Junior Hockey, he thanked the Commission and staff for everything they did to support the non-profit's legislation.

Commissioner McLaughlin made a motion seconded by **Commissioner Orr** to approve the Seattle Junior Hockey Association, located in Mountlake Terrace, as an athletic organization, and that they be authorized to conduct gambling activities in the state of Washington. *Vote taken; the motion carried with three aye votes.*

6. CARD ROOM CONTRACTS UNDER APPENDIX B – GENERAL ENHANCEMENT PILOT PROGRAM:
New Sonny's Restaurant, Federal Way

Cally Cass-Healy, Assistant Director, Field Operations, noted that Appendix B licensees have the ability to increase the number of gaming tables to 15, use alternative methods of fee collections such as a rake or hand, and to run player-supported progressive jackpot schemes. New Sonny's Restaurant has been open since January 20, 2000. They have one PSJ with a total of six tables and they are using a rake. The organization is owned by Young Choi. A six-month waiver was granted based on the experience of

the casino manager, Dan Hancock.

Commissioner McLaughlin asked about Mr. Hancock's background. **Mr. Hancock** advised he was a shift manager at the Emerald Queen Casino for three years, at PJ Pockets for four years, and Cafe Arizona for a year and a half. All together, he has been in business for 10 or 11 years.

Commissioner Orr made a motion seconded by **Commissioner McLaughlin** to approve and execute the agreement with New Sonny's Restaurant, allowing Appendix B of the enhanced pilot program. *Vote taken; the motion carried with three aye votes.*

Christo's, Bellingham

Cally Cass-Healy reported that Christo's Restaurant has been open since March of 1993, and their Poker room will be open shortly, if approved. They have two player-supported jackpots and five tables. Christos Tselios owns 100 percent of Christo's, and is the President, Treasurer, and Manager. He does not have an ownership interest in any other card room in Washington. A waiver was requested and granted based on Dan Hopkins' experience as a card room manager for Washington house-banked card rooms.

Commissioner McLaughlin inquired about Mr. Hopkins' experience. **Mr. Hopkins** said he started as an owner-operator in Bellingham in 1979. When the casinos began operation, he worked as a supervisor at the Lummi Casino and then went on to be the Poker room manager at the Nooksack Casino. Since then, he has been employed as a card room supervisor in several Whatcom County establishments. **Chair Ludwig** asked when they were set to open. Mr. Hopkins responded in two weeks, if approved.

Commissioner McLaughlin made a motion seconded by **Commissioner Orr** to approve and execute the agreement with Christo's, allowing for the operation under Appendix B of the enhanced pilot program. *Vote taken; the motion carried with three aye votes.*

7. CARD ROOM CONTRACTS UNDER APPENDIX C – HOUSE BANKED PILOT PROGRAM:

Hank's Country Inn, Belfair:

Cally Cass-Healy reported that Hank's is a commercial restaurant, lounge and card room owned by Henry and Karen O'Sullivan. They do not hold an interest in any other card room in the enhancement program. The organization began house banked operations in January of 1999. They are currently operating five tables including two Horse Shoe Blackjack, one Let It Ride, one Caribbean Stud, and one Blackjack. They are licensed to operate eight tables. An in depth evaluation was conducted by staff including a review and observation of key operating departments. These departments include gaming operations, the cashier's cage and count room, security, surveillance and the accounting department. They also evaluated the gaming and organizational records. Ms. Cass-Healy explained this is done to ensure record-keeping requirements documented in Appendix C and the licensee's internal controls were in compliance, and that no hidden ownership or unreported third party financing exists. The Mason County Auditor's Office was contacted and confirmed the county has not implemented a social card room tax. Information received from local law enforcement indicates there are no material investigations, complaints or adverse impacts due to the house banked gaming operation. Based upon this review, staff recommends approval of Level II, Phase II status for Hank's Country Inn. All violations noted in the review were corrected.

Chair Ludwig asked if Hank's had already progressed to Phase II limits based in part on the director's authorization. **Ms. Cass-Healy** affirmed they were given temporary Phase II limits for a third of their tables about a week ago.

Commissioner Orr made a motion seconded by **Commissioner McLaughlin** that Hank's Country Inn

be approved to operate at a Level II, Phase II operation. *Vote taken; motion carried with three aye votes.*

The Great Wall, Tacoma:

Ms. Cally Cass-Healy noted this establishment is a commercial restaurant and card room owned by Kyong Chang. It was approved for Phase I operation on April 8, 1999, and began house banked operations in April of 1999. They are currently operating 15 tables including two Pai Gow and 13 Blackjack tables. They do not have any other card rooms in the program. A comprehensive evaluation was conducted including review and observation of key operating departments and a review of gaming and organizational records. The city of Tacoma was contacted to verify the licensee was current on taxes. A supervisor there stated the licensee had some delinquent taxes; however, as of February 29th, all amounts due were paid. The Tacoma Police Department was also contacted and they affirmed there had been no adverse impacts to the community. Based on the review, staff recommends the decision to approve implementation of Level II, Phase II status for the Great Wall Casino. All violations noted were corrected.

Mr. Bill Halvorson, the accountant for the Great Wall Casino and **Mr. Kyong Chang**, owner, introduced themselves. **Chair Ludwig** asked if they were in or out of the city. **Mr. Halvorson** replied they were within the city limits of Tacoma and subject to an 11 percent tax.

Commissioner McLaughlin made a motion seconded by **Commissioner Orr** to approved The Great Wall of Tacoma to operate at Level II, Phase II status. *Vote taken; motion passed with three aye votes.*

Sidney's Restaurant & Sports Bar, Aberdeen:

Ms. Cally Cass-Healy reported this establishment is a commercial restaurant, lounge and card room owned by Rick and Linda Burgess, with each owning a 50 percent ownership interest. They have no interest in any other card room in the enhancement program. A complete review was conducted and the city of Aberdeen was contacted to verify the licensee was current on all taxes. In addition, the Aberdeen Police Department was contacted to verify there had been no adverse impacts on the community. Based on the review, staff recommends the decision to approve implementation to Level II, Phase II status for Sidney's Casino. All violations were corrected.

Commissioner McLaughlin addressed the letter from Balam Consulting and asked how that affected what the Commissioners do today. **Ms. Cass-Healy** responded that it had no affect, commission staff considers that a civil matter. **Chair Ludwig** stated that he had been advised by the author of the letter that they have reached a satisfactory resolution. Commissioner McLaughlin asked **Mr. Balam** if that was true, and he affirmed.

Commissioner Orr made a motion seconded by **Commissioner McLaughlin** to approved Sidney's Restaurant & Sports Bar located in Aberdeen, to operate at Level II, Phase II status. *Vote taken; motion passed with three aye votes.*

Slo Pitch Pub & Eatery, Bellingham:

Ms. Cally Cass-Healy reported this establishment is a commercial restaurant, lounge and card room owned by Jaspar Holding Inc. Jaskarn Gill holds the ownership interest and holds no other interest in the card room test program. Slo Pitch was approved to operate at Phase I on August 12, 1999, and began conducting house banked games on August 13, 1999. They are currently operating four house banked games including two Blackjack, one Spanish 21, and one Pai Gow Poker. They also have four Poker tables, which offer player supported progressive prize contests. Staff completed a very comprehensive review and the City of Bellingham was contacted to verify the licensee was current with the payment of all

gambling taxes. The Bellingham Police Department was contacted and verified there had been no adverse impacts on the community. Based on the review, staff recommends approval of Level II, Phase II status for the Slo Pitch Pub & Eatery.

Chair Ludwig asked Mr. Gill if their limits had increased to \$100. **Mr. Gill** replied they had not. Chair Ludwig asked how many tables they operated. Mr. Gill said they have a total of eight tables – four Poker tables and four house banked tables. Chair Ludwig inquired if the Level II Phase II allowance will make a difference. **Mr. Gill** hoped so. Chair Ludwig pointed out that while all of the violations were corrected, he noticed that one or two dealers appeared not to be as qualified as they should be. He asked if that dealer was still working.

Ms. Beverly Milligan, Casino Manager, said the dealer is still working, although she was reprimanded, given a suspension and had to go through further training. Ms. Milligan affirmed there is a certain percentage of errors that take place. However, they feel they are on top of the issue and will continue training all the dealers. **Chair Ludwig** agreed that dealers can make mistakes anywhere – even at some of the more famous places. Chair Ludwig asked where Ms. Milligan had worked previously. Ms. Milligan responded that she started in Lake Tahoe, Nevada. Then in 1993, she moved to the Nooksack River Casino, then to Harrah's, and then accepted the opportunity to open this property in Bellingham.

Commissioner McLaughlin made a motion seconded by **Commissioner Orr** to approved Sidney's Restaurant & Sports Bar located in Aberdeen, to operate at Level II, Phase II status. *Vote taken; motion passed with three aye votes.*

8. **OTHER BUSINESS/GENERAL DISCUSSION/COMMENTS FROM THE PUBLIC:**

Chair Ludwig called for comments or other business not on the agenda.

Bob Ransom said he was not clear what tribes were represented by the Oneida Nation. He was informed there was only one tribe, the Oneida Tribe.

Chair Ludwig addressed the fact that pending the adoption of permanent rules for the card room pilot program, (which will be on the agenda once more and may be voted on at the next meeting), and which may become effective on May 15, the Commission is operating under temporary rules. There has been some discussion about the sale and transfer of businesses in one form or another, and the 49 percent limitation if it is a corporation and someone is just buying the stock (and various other alternatives). Because there is some interest by various people contemplating buying out existing businesses, the restrictions on transferring businesses creates some problems for these transactions. Commissioner Ludwig suggested that in the case where a purchaser is qualified and already licensed, the merits for various restrictions shouldn't exist during the interim basis. He asked Commissioners to consider this since it may be resolved when the permanent rules are in place. He questioned if a house banked card room operator was operating under a contract with the Commission, wouldn't it be appropriate for that operator to assign his contract to an otherwise qualified individual, subject to the director's approval. In other words, if there is a business that's operating at Phase II and a qualified licensee takes over, should it continue to operate as it had in the past, subject to the director's approval. He asked everyone to think about this issue.

Director Bishop advised there may be some legal problems with the assignment of the contract. He asked the Commission to consider giving staff some discretion to transfer these contracts. Director Bishop indicated that once people qualify for licensing without having to come before the Commission to get an approval (during the interim period), it is more of a transition issue than anything else. **Chair Ludwig** affirmed that is what he had in mind. The director would have the discretion and could delegate his staff for review and consideration.

Commissioner McLaughlin noted that sometimes the Commission gives approval based on the facility's management. She asked if the management staff would have to stay with the new owners. **Chair Ludwig** believed the owner or holder of the contract would be the chief executive officer. If he assigned a contract and if someone else took his place, and it was an existing operation (operating well enough for someone else to think it is a good deal and wanted to buy it), one would expect that the employees, the supervisors, the pit bosses and the key employees might stay on for the new owner.

Director Bishop said the pilot program list created a problem for outright sales. If someone didn't get on the list, they could circumvent the restriction by buying someone's business that is already on the list. The Commission said they would make this situation as fair as possible by cutting off entry to the list and restricting the sale of businesses on the list. The Commission did not want these sales going on during the pilot program. Director Bishop affirmed someone can buy a portion of an establishment, but they can't buy control. Director Bishop noted that staff has effectively worked through the list and is now transitioning to the regular rules. He noted that if the rules passed in their present form, staff would still have a problem with transitions. If someone wants to sell today, they couldn't sell without affecting their participation in the pilot program. **Chair Ludwig** affirmed, unless the director had the discretion to approve continuing business in the pilot program for the interim period of time until May 15th when the rules may become effective.

Director Bishop suggested that rather than getting into legal problems, or hampering people from going through their normal business transactions, he thought it would be helpful for staff to have the discretion to ask licensees (if they are going to continue operating their business) to affirm they do not plan to change the operating mode, internal controls, or anything else during this period -- then staff can say it is a continuing business situation. **Chair Ludwig** said that was what he was trying to suggest and asked how the other Commissioners felt. He believed it might be appropriate to permit having multiple ownership's under the permanent rules, since there is no prohibition about such ownership's. He also noted the Legislature hasn't put any restrictions on multiple ownerships.

Mr. Chris Kealy of Jimmy G's in Tacoma, advised that he has given some thought to the purchase and sale acquisition merger equations. Regarding the final set of rules, he noted that some people like them and can work within the regulatory body. Other people have gotten themselves stuck in equities that they don't exactly know how to control, and they don't want to keep watching their livelihood be at risk, and want to get out of them. There are willing buyers and sellers in the marketplace. Mr. Kealy said he is seeing these transactions come down, and sees the necessity for Commission staff to have a lot of lateral control over something that one day could be worth several hundred thousands of dollars, and the next day be worth several million dollars. He acknowledged it would be difficult to work through some of the theories of licensing and how gaming controls it. He noted that when one changes a general manager at a facility, ownership has not changed – but they may change a business philosophy or a gaming control philosophy. The control of the facility and the technical control of gaming – the corporate structure which really owns the facility (the financial assets) – versus who controls the gaming, are two different things. Sometimes they look very similar, but sometimes they get very different. He believed management matters and consistency matters because that is what has been approved at Phase II, Level II – not necessarily the ownership, but the management. The other issue is that when one looks at that consistency, one may overvalue the value or the economic value of management to the degree that managers may become an entitled job position.

Chair Ludwig said he hadn't thought of that. He viewed this from the perspective that if a good card room operation was on the market, and someone buys it, they generally purchase because it's a good operation and hopefully the good employees would stay. The new buyer generally would want them, unless he brings in his own expertise. Chair Ludwig believed in the general rule that if the business was good enough to buy, it's because of the people who are running it and they ought to be good enough to keep.

Mr. Kealy affirmed in regard to the higher values; but, noted that regarding the lower values, some may be looking at the gross market share and may believe the operation could be improved with a different management structure. He believed the dangerous situation is when a marginally profitable operation is purchased by an out-of-state operation that has operated in a different regulatory environment. They may change the management model to make it a financially profitable scenario, but it may not be a management model consistent with Washington State Gambling. **Director Bishop** advised that he and staff had an in-depth discussion regarding this issue. As a result, Ed Fleisher has been working on a proposed amendment to a Commission rule that should take care of this problem. It will be introduced tomorrow. It will help with the transition and will clarify when someone has to go back to the Phase I betting limits, and gives the director some discretion as to determining when that would occur. In the interim, Director Bishop thought they will have a method of transferring businesses.

Bob Brennan, Royal Casino, appreciated the fact that the Commission was addressing the issue. He said that in most businesses there's a reason when someone buys or sells. Mr. Brennan believed the Commission ought to be sensitive to the fact that the person buying brings something new to the table, and it may not be the current management group. He pointed to some recent cases presented to the Commission that clearly indicate it could be very dangerous for a new owner to walk in and assume they have to keep anybody. Mr. Brennan supported the Chair's suggestion to give Director Bishop and his staff more discretion. He believed they have been monitoring what's been going on for over two years, and have a good feel for the industry. Buying and selling assets versus stock, is going to become a huge issue because the buyer may not want the stock of the company -- and he won't want to go back to the \$25 limit for six-months.

Chair Ludwig recessed the meeting at 3:00 p.m. and called the meeting back to order at 3:15 p.m. He asked for any other public input, there was none. He explained the Commission would reconvene to hear three reviews and to conduct an Executive Session. No other business was scheduled.

9. COMMISSION REVIEWS – REVOCATION OF LICENSE TO OPERATE GAMBLING ACTIVITIES:

Chinese Village Restaurant, Longview:

Stephen Reinmuth, Assistant Attorney General, Agency Representative
Derek Vanderwood, Attorney representing the Licensee
Louise K. Woo, President, Chinese Village Restaurant

Jason's Restaurant (Lindquist Enterprises), Tacoma/Puyallup/Oak Harbor:

Stephen Reinmuth, Assistant Attorney General, Agency Representative
James Feltus, Attorney representing the Licensee
Charles Lindquist, President

Dixie Schule, Seattle:

Stephen Reinmuth, Assistant Attorney General, Agency Representative
Dixie Schule, Appearing Pro Se

At the conclusion of the hearings, **Chair Ludwig** recessed the public meeting. The meeting was reconvened at 4:40 p.m.

Chinese Village Restaurant, Longview:

Chair Ludwig reported the Commission unanimously agreed to adopt the findings and conclusions of the administrative law judge (ALJ). He noted he ALJ had the opportunity to observe and hear the witnesses personally and that he made a finding that bookmaking was occurring and it was within the ability of employees of the Chinese Village to observe it. The Commission affirms the Administrative Law Judge's Findings and Conclusions and affirms the revocation.

Jason's Restaurant (Lindquist Enterprises), Tacoma/Puyallup/Oak Harbor:

Chair Ludwig noted the ALJ's conclusion was based on the fact that Mr. Lindquist is on probation. That in and of itself is enough to support his conclusions, and the Commission adopts those findings and conclusions and affirms the revocation. However, without putting it in the form of an order, he believed that once Mr. Lindquist is off probation, at least part of the reason for his revocation would have expired, and he would have a right to reapply. Whether that period is two years or five years depends on what the U. S. Attorney may do. Chair Ludwig cautioned that the right to reapply doesn't automatically mean the application would be approved.

Dixie Schule, Seattle:

Chair Ludwig reported the Commission has decided to remand this matter to the Administrative Law Judge to take further testimony from Agent McFarlan, and/or to explain whether knowledge and willfulness is to be considered, and whether violations of the Washington Blackjack rules is enough without a finding of knowledge and willfulness. This means that what Mr. Reinmuth suggested as an alternative and what Ms. Schule said she was willing to accept -- is to refer this matter back to Judge Heller for further findings and conclusion.

The orders will be signed when drafted and forwarded to the appropriate parties.

10. EXECUTIVE SESSION TO DISCUSS PENDING INVESTIGATIONS AND LITIGATION:

Chair Ludwig called for an Executive Session at 4:45 p.m. Chair Ludwig noted no further business would be conducted following the Executive Session, with the exception of adjourning the meeting.

11. ADJOURNMENT:

Chair Ludwig recalled the open public meeting at 5:20 p.m. and declared the meeting adjourned.

**COMMISSION MEETING
FRIDAY, MARCH 10, 2000
MINUTES**

Chair Ludwig called the meeting to order at 9:30 a.m. at the Inn at Semi-ah-moo in Blaine.

MEMBERS PRESENT: **CURTIS LUDWIG, Chairperson;
COMMISSIONER LIZ MCLAUGHLIN; and
COMMISSIONER GEORGE ORR**

OTHERS PRESENT: **BEN BISHOP, Executive Director;
SHERRI WINSLOW, Deputy Director, Operations;
ED FLEISHER, Deputy Director, Policy & Government Affairs;
AMY PATJENS, Manager, Communications & Legal Department;
CALLY CASS-HEALY, Assistant Director, Field Operations;
DERRY FRIES, Assistant Director, Licensing Operations;
ROBERT BERG, Assistant Director, Special Operations;
JERRY ACKERMAN, Assistant Attorney General; and
SHIRLEY CORBETT, Executive Assistant**

1. MINUTES – February 10 & 11, 2000:

Chair Ludwig declared if there were no corrections, changes or additions, the February 10-11, 2000, meeting minutes would stand approved as written. There were no objections.

2. STAFF REPORTS:

Legislative Report:

Ed Fleisher, Deputy Director, Policy & Government Affairs, reported on the five bills that were passed by the Legislature and are awaiting the Governor's signature.

Criminal History Records, HB 2353 / SSB 6145:

This was an agency request bill, which passed.

Charitable Fund Raising Events, SHB 2358 / SB 6339:

This is an agency request bill on charitable fundraising events that allows a new method for charities to conduct the fundraising events. This would allow them to hire a vendor to conduct the events. The vendor would have to be paid a flat fee and could not participate in the profits from the gaming. The organization would still be subject to all the other limitations of current law, such as not being able to raise more than \$10,000 on a Reno Night event. If they used vendors to conduct the games, the game will be played with scrip or chips that have no value. At the end of the evening, participants would be able to

either cash in for prizes -- or the person with the most chips may win a prize. In any event, the total value of all the prizes can't exceed 10 percent of the gross revenue from the event.

Personal Financial Information, SHB 2792 / SSB 6686:

A Governor's request bill that provides new public disclosure of financial information. This provides a new public disclosure exemption for financial information supplied by licensees to the Gambling Commission, the Lottery Commission and the Liquor Board.

Promotional Contests of Chance, SSB 6373:

This bill updates and clarifies the promotional contests of chance statute. This is Julie Porter's bill.

Chair Ludwig asked if this bill takes promotional contests out of Title 9.46 and puts it under the authority of the attorney general. Mr. Fleisher said no, it remains in Title 9.46. Chair Ludwig asked if it created an agency impact. Mr. Fleisher replied in the negative.

Credit Union Raffles, HB 2764 / SSB 6557:

This bill adds credit unions to the list of nonprofits that can conduct raffles. Currently the non-profits that are allowed to conduct raffles may conduct raffles of less than \$5,000 without getting a license when the tickets are only sold to their members. They can also conduct larger raffles. This bill merely allows the credit unions to conduct those small raffles when tickets are sold to their members. An amendment was added that states any revenue generated from the raffles has to be used for one of the purposes currently used in law, education and social programs.

Mr. Fleisher affirmed the Legislature is commencing a special session today. He doubted that any gambling-related legislation would be on the list for the special session.

3. **RULES UP FOR FINAL ACTION**

Bingo Rules - Streamlining

Ms. Cally Cass-Healy said these rules are a result of discussions within the net return task force comprised of Commission staff members and industry members from Bingo. She briefly reviewed each rule as follows:

WAC 230-02-108 - Clarifies the types of expenses that can be deducted to reach gambling proceeds. It also clarifies types of expenses.

WAC 230-02-123 - Charitable or nonprofit organizations – Net return defined. Clarifies that income from the rental of the gaming facility may be applied toward an organization's net return as a credit against gambling expenses.

WAC 230-02-183 - Allows members to attend 75 percent of the board meetings and still be considered an active member.

WAC 230-08-080 - Deletes the requirement to record the time of the attendance count in a Bingo game and reduces the record retention requirement from three years to 24 months -- except for the session summary.

WAC 230-08-100 - This is redundant with the Public Disclosure Commission requirements.

WAC 230-08-105 - Allows an electronically-generated inventory record as approved by Commission staff.

WAC 230-12-050 - Language has been added under subsection 5, specifically exempting free food and drink to Bingo players from being considered a gift and therefore would make it allowable.

WAC 230-12-078 - Bona fide charitable or nonprofit organizations – Responsibilities – Independent management control structure required. This is a housekeeping change to make it consistent with other rules regarding group assignments of non profit organizations.

WAC 230-20-110 - Is redundant with current WAC 230-12-223

WAC 230-20-120 - No free food or beverages to be provided at bingo games – Exceptions. This is a change in order to be consistent with item 3(g) -- to allow Bingo operators to offer free and discounted food and non alcoholic beverages to their players.

WAC 230-20-220 - Operators shall not play. Housekeeping only.

WAC 230-20-243 - Hidden face bingo games. Codifies authorization.

WAC 230-20-244 - Electronic bingo card daubers – Definition – Operating Restriction – Standards. Language was added in subsection 2B to clarify that Bingo players can play a maximum of 66 electronic Bingo cards in addition to as many paper cards as they choose.

Chair Ludwig asked if there were questions from the Commission, there were none. He opened the issue for public testimony and informed the audience that this will be the last opportunity to make comments for or against the proposed Bingo rules. He noted the rules were developed through the study sessions with Bingo operators and staff. There were no public comments. Chair Ludwig closed the public hearing.

George Orr made a motion seconded by **Commissioner McLaughlin** to adopt the Bingo rules set out in #1-3M. *Vote taken; and passed with three aye votes.*

4. RULES UP FOR DISCUSSION:

Licensee Reporting Requirements Rule: WAC 230-12-310:

Amy Patjens, Manager, Communications and Legal Department, reported that this rule is up for discussion only. It will require all licensees to inform the Commission when they've had a civil or a criminal action filed against them. They will also have to notify the Commission of the final disposition of the case. There had been a question as to whether licensees would be required to report when they had administrative actions filed against them -- or an action filed by another gambling regulatory agency -- or simply another regulatory agency. Ms. Patjens explained the proposed rule clarifies what types of actions must be reported. It does include administrative actions and types of actions that have been filed that would affect the ownership of the business. It includes things the Commission would logically want to know about if the ownership has changed, so that staff can do the necessary background investigations. Since the last meeting, the rule has been reordered. Language was also added that the organization would have to let the Commission know when they've had an administrative action filed by an Indian Tribe, which is something that wasn't included originally.

Ms. Patjens explained that when this rule is discussed next month, there will be an additional change. It will require that when a criminal action has been filed, the licensee must notify the Commission within 14 days. Currently, such information would usually be included with the licensee's quarterly activity report. Currently, if someone had a criminal action brought against them on January 2nd, they would not be required to report that action until the end of that quarter. They then have an additional 30 days to submit their report. This means it could be almost four months before notice of such an action is received by the Commission. The new change would fix this concern. Ms. Patjens noted there are some licensees that file annually -- those organizations have to report 30 days after they've had an action filed.

Chair Ludwig opened the issue for public discussion, there were no comments and he closed public hearing.

5. **CARD ROOM RULES:**

General Card Games:

WAC 230-40-010, WAC 230-40-015, WAC 230-40-030, WAC 230-40-040, WAC 230-40-050, WAC 230-40-060, WAC 230-40-070, WAC 230-40-120, WAC 230-40-125, WAC 230-40-130, WAC 230-40-150, WAC 230-40-160, WAC 230-40-200, WAC 230-40-225, WAC 230-40-400, WAC 230-50-010, WAC 230-40-900

Ms. Sherri Winslow, Deputy Director, Operations, reported that Section A, General Card Games, covers fees, rules of play, table and wagering limits, and hours of operation. The policy issues include fee limits on wagering, the number of tables, and the hours of operation. The changes that have been made since February include changes to **WAC 230-40-010**. It includes a provision which allows bonus features for added prizes not to be considered as a separate game. This is something that allows more flexibility for the card room operators. It allows operators to still have a bonus feature in the game and not be limited. The Commission limits the number of games that can be played in a single round. The problem is that when they had the bonus feature, it created difficulty and some games didn't fit the way they had structured the rules to allow it to be played -- this adds that flexibility. It is still required that all funds be maintained for jackpot prizes and aggregate pay-outs up to a certain amount. No changes have been made in that area.

Ms. Winslow noted that staff is planning a change in **WAC 230-40-125**. This will be up for consideration at the April meeting and will eliminate a reference to Phase I because that's no longer a term used in this package.

Player-Supported Jackpots (PSJs):

WAC 230-40-600, WAC 230-40-610, WAC 230-40-615

Ms. Winslow noted this section covers PSJ approvals, rules of conduct along with the control structure for non-house banked games. The only policy issue relates to the PSJ wager limit.

House-Banked Card Games, Additional Requirements for PSJs, Specific Fee Assessment and Collection Methods:

WAC 230-40-800, WAC 230-40-803, WAC 230-40-805, WAC 230-40-810, WAC 230-40-815, WAC 230-40-820, WAC 230-40-823, WAC 230-40-825, WAC 230-40-83, WAC 230-40-833, WAC 230-40-835, WAC 230-40-840, WAC 230-40-845, WAC 230-40-850, WAC 230-40-855, WAC 230-40-860, WAC 230-40-865, WAC 230-40-870, WAC 230-40-875, WAC 230-40-880, WAC 230-40-885, WAC 230-40-890, WAC 230-40-895, WAC 230-40-897

Ms. Winslow advised that this section covers house banked card room control structures, operating rules and procedures, prize limits, banking requirements, and promotion limits along with the evaluation and audit requirements. Policy issues relate to Phase II wagering limits, prizes and promotions.

Changes made since February include **WAC 230-40-820**, to clarify language on the payment of services related to evaluations. Section **230-40-845** contains a change to delete the name and address of a check drawer from the return check record. This was deleted because it wasn't on the format given to the licensees.

Two housekeeping changes were made to **WAC 230-40-865** and another to **230-40-880** and in Section **230-40-885**. There was a correction regarding the reference to the department required to notify the surveillance for this procedure.

It is anticipated that language will be added to **WAC 230-40-895** allowing an additional key control box for emergency situations. Staff has become aware of a situation where an employee passed out in the cage. Because of the lack of access to the cage, emergency responders had difficulty getting to this person. Another key box available to the licensees that could be used or accessed in emergency situations would resolve this issue.

Ms. Winslow noted that staff would like to add a change in **WAC 230-40-803** - Phase II Wager Limits Authorization Procedures for consideration at the April meeting. Subsection (6) is being added, "When a house banked card room authorized to operate at Phase II levels is sold or otherwise transferred, the director may authorize the new licensee to remain at Phase II levels if the new licensee demonstrates that the gaming operation and internal controls will remain substantially unchanged. In cases where the director authorizes continued Phase II operation, the licensee shall pay the review deposit required under WAC 230-40-803 (2) (a) and after six months of operation by the new licensee, commission staff shall conduct a review of the licensee's house banked card room operation." **Director Bishop** noted this section addresses the issue discussed in yesterday's meeting regarding the transition of a business that sells.

Card Room Definitions:

WAC 230-40-550, WAC 230-40-552, WAC 230-40-554, WAC 230-40-556, WAC 230-40-558, WAC 230-40-560, WAC 230-40-562

Ms. Winslow affirmed these rules cover card room terms requiring definitions. There are no policy issues.

Other Rules Relating to Card Games

WAC 230-02-109, WAC 230-02-110, WAC 230-02-400, WAC 230-02-415, WAC 230-02-425, WAC 230-04-022, WAC 230-04-140, WAC 230-04-142, WAC 230-04-204, WAC 230-04-207, WAC 230-04-255, WAC 230-04-450, WAC 230-08-040, WAC 230-08-090, WAC 230-08-027, WAC 230-08-160, WAC 230-12-050, WAC 230-12-072, WAC 230-12-073, WAC 230-04-203

Ms. Winslow reported that Section E covers card room term definitions, licensing and certification procedures, record keeping, reporting requirements, and deposit requirements for both PSJs and house banked games. The policy issues relate to the fees for individuals. The changes staff have made in this section relate primarily to the public card room employees. Staff had several discussions since the February meeting and it was determined that it is necessary to continue with the notification of card room employment by the employees and employers. This has been discussed with the licensee group, and they concur with the changes proposed to **230-04-140** and **230-04-142**. Regarding "fees for individuals" in **230-04-204**, they would like to keep the fee requirement for transfers in that area.

Ms. Winslow asked the Commission to consider filing a separate item with this rule package -- it will have a separate agenda deadline -- **WAC 230-40-055**, Card Tournaments for fee and prizes -- the reporting requirements. The change allows Class F and house banked card rooms to also conduct tournaments for a fee without a tournament license. That has not been included in the package previously and staff asks that it be filed today. **Director Bishop** clarified this will be a separate section next month because it won't become effective with the rest of the rules.

Commissioner McLaughlin made a motion to file **WAC 230-40-055**; **Commissioner Orr** seconded the motion. *Vote taken; motion carried with three aye votes.*

Chair Ludwig noted the card room rules would be on the agenda (with the exception of **WAC 230-40-055**) next month for final action, and if approved, the rules will be effective on May 15, 2000, effectively ending the pilot program. Chair Ludwig opened the issue of the proposed permanent card room rules for public comment. No comments were made and he closed the public hearing.

7. OTHER BUSINESS/GENERAL DISCUSSION/COMMENTS FROM THE PUBLIC:

Chair Ludwig addressed the fact that the Commission had received a letter which was somewhat critical of meeting this far in the northeastern part of the state -- which is a long way for people from Eastern Washington to travel. Chair Ludwig affirmed the Commission attempts to meet throughout the state.

Meetings are scheduled in Eastern and Western Washington so that attendees who don't wish to attend every meeting can have an opportunity to attend a "local" meeting. The Commission will meet in Olympia for the February, 2001 meeting during the legislative session. Chair Ludwig noted that Semi-ah-moo is one of the nicest facilities the Commission uses and he reminded the audience that we don't come to these places necessarily because they are nice, but because they provide favorable rates. In response to the letter, Chair Ludwig asked if anyone had suggestions for future meeting places, to please let the Commission know. Staff will determine if the facility has meeting rooms adequate for our meeting needs and verify that room rates are reasonable. Chair Ludwig emphasized that suggestions are welcome. Please remember that of the 11 meetings, only three or four are conducted in eastern Washington.

Chair Ludwig called for other new business or general comments from the public, no comments were offered.

8. ADJOURNMENT:

With no further business, a motion for adjournment prevailed at 10:15 a.m.

Minutes submitted to the Commission for approval.

Shirley A. Corbett
Executive Assistant